



# An Audit of the First Court of Appeals

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# Executive Summary

## Purpose and Scope

The objectives of the First Court of Appeals (Court) audit were to determine whether:

- Payments were processed according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Documentation to support those payments was appropriately maintained.
- Appropriate security over payments was implemented.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from June 1, 2017, through May 31, 2018.

## Background

The Court serves the Houston, Texas area. The Court consists of nine justices who hear appeals and original proceedings from 10 counties.

First Court of Appeals website



<http://www.txcourts.gov/1stcoa/>

## Audit Results

The Court generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with payroll or travel transactions. However, the Court should consider making improvements to its purchasing, internal control structure and security processes.

The auditors reissued two findings from the last audit conducted at the Court related to internal control structure and security. Auditors originally issued these findings in July 2014. An overview of audit results is presented in the following table.

## Table Summary

Area	Audit Question	Results	Rating
Payroll Transactions	Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Purchase Transactions</u>	Did purchase transactions comply with the GAA, pertinent statutes and Comptroller requirements?	One transaction processed with an incorrect appropriation year.	Compliant, Findings Issued
Travel Transactions	Did travel transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Internal Control Structure</u>	Are incompatible duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	 Two employees had multiple incompatible duties.	Control Weakness, Issues Exist
<u>Security</u>	Are Court employees who are no longer employed or whose security was revoked properly communicated to the Comptroller's office?	 Failure to notify the Comptroller's office to remove one employee from the voucher signature card.	Control Weakness, Issues Exist



## Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations include:

- The Court must charge purchases to the correct appropriation year.
- The Court must elect to have the document tracking control edit on the Agency Profile (D02) set to prevent a user from releasing a batch that the same user entered or altered for the agency or must run the Risky Document Report (DAFR9840).
- The Court must work with the Comptroller's office Statewide Fiscal Systems security staff to set up user profiles that separate the entry and approval of payroll transactions in the Uniform Statewide Accounting System (USAS).



- The Court must limit user access by removing the user from the Court's signature card or by removing the user from the Court's Authorization for Warrant Pickup list.
- The Court must ensure that the person responsible for sending termination notifications to the Comptroller's office is aware of any terminations on or before the termination date and will follow up with the Comptroller's office to ensure receipt of the notification and that the revocation occurred.





# Detailed Findings

## Payroll Transactions

Auditors developed a representative sample from a group of 10 employees and 34 payroll transactions totaling \$139,038.01 to ensure the Court complied with the GAA, the [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed no exceptions in payroll transactions.

## Purchase Transactions

Auditors developed a representative sample of 30 purchase transactions totaling \$260,296.43 to ensure the Court complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed the following exception in purchase transactions.

## Incorrect Appropriation Year

Auditors identified one purchase for \$39,960 that was processed to an incorrect appropriation year (AY).

The Court paid for leased parking space with AY17 funds as the vendor required advance payment for services that would begin in AY18. While advance payment is applicable in this instance, the Court should have processed an expenditure transfer voucher to move the expense to AY18 funds. Due to the advance payment requirement, the Court thought it processed the transaction correctly.

A state agency must charge purchased services to the AY in which the services are rendered. A state agency may not charge an AY for purchased services if the services are rendered during a different AY. See [eXpendit](#) – Fiscal Matters, Appropriation Year Determination.

## Recommendation/Requirement

The Court must ensure the correct AY is charged for purchases. The Court must process an expenditure transfer voucher to correct the previously posted expenditure to the correct AY.

## Court Response

*The Court is unable to take the requested corrective action (process an expenditure transfer voucher to correct the previously posted expenditure to the correct AY), as this would result in a deficit in funds spent. The Court will make certain that all future purchases are paid in the correct AY and will reach out to the Comptroller's Office if there are any questions regarding an invoice.*



*Based on this finding, the current invoice for this expenditure has been processed in the correct FY for FY19.*

## Travel Transactions

Auditors reviewed all five travel transactions, totaling \$493.98, to ensure the Court complied with the GAA, relevant statutes and Comptroller requirements. Audit tests revealed no exceptions in travel transactions.

## Internal Control Structure

The review of the Court's segregation of duties was limited to obtaining reports identifying current users' access. The review did not include tests of existing mitigating controls. The audit tests conducted revealed the following exception in user access.

## Control Weakness Over Expenditure Processing

As part of the planning process for the post-payment audit, auditors reviewed certain limitations that the Court placed on its accounting staff's ability to process expenditures. Auditors reviewed the Court's security in USAS, the Standardized Payroll/Personnel Reporting System (SPRS), the Texas Identification Number System (TINS) and voucher signature cards in effect on Feb. 5, 2019. Auditors reviewed the internal or compensating controls the Court had relating to USAS, SPRS or TINS security or internal transaction approvals.

Auditors identified two employees with multiple security capabilities. Both employees had the security to:

- Process and release payments through USAS.
- Process and release payrolls without electronic oversight.
- Approve paper vouchers for expedite and pickup warrants from the Comptroller's office.

The Court explained that most administrative functions are handled by a small number of individuals. Based on the recommendation in the 2014 post-payment audit, the Court added a preventive warning for all of its transactions in USAS and implemented mitigating controls for review of transactions processed by the same individual. However, the actions taken were not sufficient to resolve the issue.

Auditors also ran a report to determine whether any of the Court's payment documents processed through USAS during the audit because of the action of only one individual. The report indicated two USAS documents processed without electronic oversight. These documents resulted in payments totaling \$203.31. The documents were reviewed. No issues were identified; however, the Court did not retain documentation of its review of the transactions.



## Recommendation/Requirement

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To reduce risks to state funds, agencies must have controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual should be able to process transactions without another person's involvement.

Auditors strongly recommend that the Court implement the following:

- Elect to have the document tracking control edit on the Agency Profile (D02) set to prevent a user from releasing a batch that the same user entered or altered for the agency, or run the Risky Document Report (DAFR9840).
- Work with the Comptroller's office Statewide Fiscal Systems security staff to set up user profiles that separate the entry and approval of payroll transactions in USAS.
- Limit user access by removing the user from the Court's signature card or by removing the user from the Court's Authorization for Warrant Pickup list.

## Court Response

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*The Risky Document Report (DAFR9840) has been set up in USAS. In addition, the Court has requested the Comptroller's Office to set to "fatal" any attempt by a user who attempts to both enter and approve a document. See Security Requests Tickets: RITM0291336, RITM0291349, and RITM0291345.*

*Due to the small size of the agency and the need for access should an emergency occur, both Kelly McIntosh and Chris Prine will continue to have entry and approval of payroll transactions. Although no instance has yet to occur, if the need arises, the employee who must enter and approve a payroll will notify the other potential approver by email and provide a paper copy for review. The court will maintain documentation of any such occurrence. In addition, if such an emergency situation were to occur, the Court will take steps to train and/or add another authorized approver before the next payroll is run.*

*Kelly McIntosh has been removed from the Court's Authorization for Warrant Pickup list.*

## Security

The audit included a security review to identify any of the Court's employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so security can be revoked in a timely manner. Audit tests revealed the following security exception.





## Failure To Notify Comptroller's Office To Remove Employee From Signature Card

During the audit period, the Court did not notify the Comptroller's office about the termination of one employee who had been designated to approve expenditures.

Although the Court is required to notify the Comptroller's office within five days after termination, it did not, and the employee remained on the Court's voucher signature card for 96 days after termination. The former employee could have approved vouchers submitted to the Comptroller's office during that time. Any payment produced by a paper voucher approved by a terminated employee would constitute an unapproved expenditure. The Comptroller's office verified that no paper vouchers were processed by this employee after the termination date.

When a designated employee terminates employment with an agency, the Comptroller's office must receive notification of the termination no later than the fifth day after the effective termination date. Any officer or employee may send the Comptroller's office that notification. See [34 Texas Administration Code Section 5.61](#).

### Recommendation/Requirement

The Court must ensure compliance with revocation requirements for terminated employees. It must also ensure the person responsible for sending the revocation notifications to the Comptroller's office is aware of terminations on or before the termination date, and will follow up with the Comptroller's office to ensure receipt of the notification and that the revocation occurred.

### Court Response

*Kelly McIntosh and Chris Prine work very closely together to ensure all terminations are communicated for payroll purposes. Should an employee that has entry capability be terminated, the 5 day revocation requirement will be sent to the Comptroller and followed up with the Comptroller's office to ensure receipt of the notification is in place.*

*After its 2014 audit, the Court took steps to ensure any terminated employee with access would be terminated with the Comptroller and the appropriate verifications would be made according to 34 TAC 5.61. Working with the 2014 auditors and rectifying the finding made in 2014, it was the Court's understanding that the signature card for the Court from that point forward listed only Kelly McIntosh and Chris Prine as authorized to act on behalf of the Court. A tickler file was added to Kelly McIntosh's and Chris Prine's personnel files with a reminder to terminate that authority in a timely manner and to ensure a termination notice would be sent to and received by the Comptroller's office.*



# Appendices

## Appendix 1 — Objectives, Scope, Methodology, Authority and Team

### Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of any of the following:
  - Uniform Statewide Accounting System (USAS),
  - Uniform Statewide Payroll/Personnel System (USPS),
  - Standardized Payroll/Personnel Reporting System (SPRS),
  - Human Resource Information System (HRIS) or
  - Centralized Accounting and Payroll/Personnel System (CAPPS).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

### Audit Scope

Auditors reviewed a sample of the First Court of Appeals (Court) payroll, purchase and travel transactions that processed through USAS and SPRS from June 1, 2017, through May 31, 2018, to determine compliance with applicable state laws.

The Court receives appendices with the full report, including a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

*Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.*

The audit provides a reasonable basis for the findings set forth in this report. The Court should implement the recommendations listed in the Detailed Findings of this report. It is the Court's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Court's documents comply in the future. The Court must ensure that the findings discussed in this report are resolved.



## **Audit Methodology**

The Expenditure Audit section uses limited sampling to conduct a post-payment audit.

## **Fieldwork**

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

## **Audit Authority**

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

## **Audit Team**

*Melissa Hernandez, CTCD, CTCM*

*Anna Calzada, CTCD*





## Appendix 2 — Definition of Ratings

### Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant
Restrictions on auditor's ability to obtain sufficient evidence to complete all aspects of the audit process. Causes of restriction include but are not limited to: <ul style="list-style-type: none"><li>• Lack of appropriate and sufficient evidentiary matter.</li><li>• Restrictions on information provided to auditor.</li><li>• Destruction of records.</li></ul>	Scope Limitation

### Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented.  These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

### Repeat Finding Icon Definition



This issue was identified during the previous post-payment audit of the agency.